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C O N F I D E N T I A L SECTION 01 OF 02 SOFIA 001397

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FOR THE SECRETARY FROM AMBASSADOR BEYRLE

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SUBJECT: YOUR MEETING WITH BULGARIAN FOREIGN MINISTER

IVAILO KALFIN ON JANUARY 4

Classified By: Ambassador John Beyrle for reasons 1.4 (b) and (d)

11. (C) SUMMARY: FM Kalfin comes to Washington as Bulgaria's coalition government faces some key foreign and security policy decisions, including Kosovo, Iraq and Afghanistan deployments, and Russian energy deals. President Putin will visit Sofia on January 17-18 to kick off the "Year of Russia in Bulgaria," and will press the Bulgarians hard on the South Stream gas agreement as well as on European security. Sofia wants to do the right thing, but needs U.S. and EU backing to help resist Kremlin pressure tactics. Prime Minister Stanishev, with hardline opposition in his own party to manage and difficult junior coalition partners, has to spend his political capital carefully. With nearly all of its gas and oil coming from Russia, Bulgaria must take Moscow seriously. Your meeting will help strengthen the resolve of Kalfin -- and his Prime Minister -- to stand firm with Putin.

On Kosovo, Sofia will join an EU consensus, but is concerned over Serb retaliation and argues it cannot be among the first to recognize. On Iraq and Afghanistan, Sofia has stalled our requests for additional deployments, largely for internal political reasons. Making the strategic case to Kalfin will help the government face down its internal critics. END SUMMARY.

Kosovo

12. (C) Bulgaria wants to be in the EU consensus on Kosovo recognition but braces for Serb retaliation, recalling the blowback from the 1990s Yugoslavia embargo. Acting on their own initiative but within the boundaries of EC decisions, the Bulgarians are making a good-faith effort to be a bridge between Belgrade and Brussels and bring Greece, Romania, Slovakia and Cyprus on board with an EU consensus on coordinated recognition -- or at least prevent them from being spoilers. Kalfin will seek assurance we will stand by Kosovo and the EU if Serbia lashes out. He may also provide insights into Romanian and Greek views based on his December 22 Athens meeting with his counterparts, as well as Kosovo following his December 27 Pristina visit. Kalfin is actively advocating the Ahtisaari plan to the Serbs. He is also preparing a formal request for U.S. assistance to Kosovo in the event of a Serb blockade. Kalfin is optimistic about finding an EU consensus but, spooked by Serb threats, he continues to insist that Bulgaria cannot be in the first wave of countries to recognize Kosovar independence. We expect Putin in his mid-January visit will press on Kosovo, although the Bulgarians are looking to negotiate "non-discussion" of the issue. We are encouraging Sofia to recognize Kosovo earlier rather than later. Kalfin will seek reassurance that the U.S. will stand by Kosovo -- and Bulgaria -- if the going gets rough.

Iraq, Afghanistan Deployments

13. (C) Bulgaria currently has 154 soldiers serving in Iraq at Camp Ashraf and 406 soldiers in Afghanistan in Kandahar and Kabul, with approximately 200 of these guarding the perimeter of Kandahar Airfield. Bulgaria's continued commitment to these missions demonstrates its desire to be seen as a reliable partner. The ruling coalition continues to support the deployments, despite strong public opposition and increasing pressure to spend the money on domestic issues. The Bulgarians have yet to reach internal consensus on our requests for 40 military engineers for Iraq and 50 additional troops for Afghanistan. In addition to political calculations and concern over casualties, a major overhaul of Bulgaria's force structure and military modernization plan is also unresolved. We are engaging the government at all levels to ensure it does not lose its nerve. Hearing your assessment of progress in Iraq and Afghanistan and the value of Bulgaria's increased efforts will accelerate a positive Bulgarian decision. Bulgaria and Iraq achieved a debt relief agreement, good for both sides, netting the USD 360 million to wipe off Iraq's USD 3.6 billion debt. Kalfin may raise Bulgaria's long-stalled request to open a Baghdad embassy. We are working closely with US Embassy Baghdad to accelerate progress.

Energy Security

14. (C) The Bulgarians understand the importance of energy independence in theory, but are nearly wholly dependent on Russia for oil (98 percent) and gas (95 percent). Lukoil is Bulgaria's largest taxpayer, accounting for 25 percent of tax revenues and five percent of GDP. Bulgaria wants to position

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itself as an energy transit hub to develop new revenue sources. Although committed to the EU Nabucco gas pipeline project, Bulgarians express increasing skepticism about its prospects and the EU's commitment. On November 8 Bulgaria signed a joint declaration with Russia on its alternative to Nabucco, South Stream, which leaves ownership and other important decisions to an Intergovernmental Agreement (IGA) to be signed during Putin's visit. The decision on this was largely political, a big deliverable for Putin, with less worry over the long-term economic and security implications. We are urging Sofia to retain expert legal counsel to advise them on IGA development. They need this outside expertise to be in the best possible negotiating position with the Russians, and in the longer term to work more effectively with the EU on Nabucco, energy diversification, and a common EU energy security policy.

Internal Politics

15. (C) PM Stanishev's Socialist-led coalition government emerged weakened but intact after a difficult first year of EU membership. Stanishev held the line on fiscal discipline, withstood public sector strikes and managed an acceptable showing in October local elections. Still, his government is not popular: polls show only 20 percent support. A growing economy has widened income disparities, and pervasive corruption eats at public trust. Stanishev has two balancing acts: one with hardliners in his own (ex-communist) party as he tries to modernize it; and the other with his junior coalition partners, the centrist (and fast imploding) party of ex-king Simeon and the disciplined but corrupt ethnic Turkish Movement for Rights and Freedoms. To improve the security, intel and crime fighting services, Stanishev pushed through legislation in December consolidating domestic intelligence services to make them more effective and transparent, a big step in the right direction. The legislation is imperfect and we are working with the government on fixes. We are also urging the government to close duty-free shops and gas stations, which siphon

approximately 400 million BGN per year from government coffers. Doing so would be a relatively simple executive decision that would signal political will to tackle corruption.

16. (C) Kalfin is the star in the cabinet; he has the ear of both Stanishev and President Parvanov, and high approval ratings among the general public and in Brussels. Moreover, he is a staunch believer in Bulgaria,s Euro-atlantic ties -- although he occasionally tacks leftward for public consumption. He will be instrumental in leading debates on the government,s tough choices in the months ahead, and will use every word he hears from you to good advantage. He might also raise Bulgaria,s VWP eligibility (it,s getting closer to legislative thresholds but is still some years off), and pitch the Prime Minister,s iterest in a White House meeting. And he will suely renew the invitation for you to visit Bulgara as part of the NATO Summit trip to receive a secial state award in appreciation of your steady, forceful advocacy on behalf of the now-free Bulgaran nurses. And y the way, they want to meet yo to say thanks, too.
Beyrle